

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Upper Peninsula Substance Enforcement Te	County Marquette
Fiscal Year End 9/30/07	Opinion Date 3-19-2008	Date Audit Report Submitted to State 3-25-08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SE
N

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, P.L.C.		Telephone Number 906-225-1166	
Street Address 102 W. Washington St., Suite 109		City Marquette	State MI
Zip 49855			
Authorizing CPA Signature 	Printed Name JOHN N. BLUMBERG	License Number 10180	

**UPPER PENINSULA
SUBSTANCE ENFORCEMENT TEAM**

FINANCIAL STATEMENTS

For the Year Ended September 30, 2007

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Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

INDEPENDENT AUDITORS' REPORT

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
Gwinn, MI. 49841

We have audited the accompanying financial statements of the governmental activities of the Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2007, which collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Upper Peninsula Substance Enforcement Team's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Upper Peninsula Substance Enforcement Team as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2008 on our consideration of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and other matters and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and budgetary comparison information on pages 5 through 8 and page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinions on it.

Upper Peninsula Substance
Enforcement Team
P.O. Box 364
Gwinn, MI. 49841

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Peninsula Substance Enforcement Team's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the Upper Peninsula Substance Enforcement Team. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 19, 2008

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Upper Peninsula Substance Enforcement Team's financial performance provides an overview of the Upper Peninsula Substance Enforcement Team's financial activities for the year ended September 30, 2007. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Upper Peninsula Substance Enforcement Team as a whole increased by \$38,435 as a result of this year's operations.
- The general fund reported an increase in fund balance of \$40,409.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 10) provide information about the activities of the Upper Peninsula Substance Enforcement Team as a whole and present a longer-term view of the Upper Peninsula Substance Enforcement Team's finances. Expenditure schedules for each Upper Peninsula Substance Enforcement Team Program start on page 19. These statements report the Upper Peninsula Substance Enforcement Team's operations in more detail than the Agency-wide statements showing expenditures for each program by main expense category.

Reporting the Upper Peninsula Substance Enforcement Team as a Whole

Our analysis of the Upper Peninsula Substance Enforcement Team as a whole begins on page 6. One of the most important questions asked about the Upper Peninsula Substance Enforcement Team's finances is "Is the Upper Peninsula Substance Enforcement Team as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Upper Peninsula Substance Enforcement Team as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Upper Peninsula Substance Enforcement Team's *net assets* and changes in them. You can think of the Upper Peninsula Substance Enforcement Team's net assets - the difference between assets and liabilities - as one way to measure the Upper Peninsula Substance Enforcement Team's financial health, or *financial position*. Over time, *increases or decreases* in the Upper Peninsula Substance Enforcement Team's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Upper Peninsula Substance Enforcement Team's client base and the condition of the Upper Peninsula Substance Enforcement Team's capital assets, to assess the *overall financial health* of the Upper Peninsula Substance Enforcement Team.

All of the Upper Peninsula Substance Enforcement Team's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Upper Peninsula Substance Enforcement Team's basic services are reported here. Upper Peninsula Substance Enforcement Team activities are primarily funded by state and local sources of funds and forfeitures.

Reporting on the Upper Peninsula Substance Enforcement Team's General Fund

All Upper Peninsula Substance Enforcement Team programs and services are reported in the General Fund. Our analysis of the Upper Peninsula Substance Enforcement Team's general fund begins on page 19. This financial statement provides detailed information on Upper Peninsula Substance Enforcement Team's expenditures by reporting unit.

- *Governmental funds* – All of the Upper Peninsula Substance Enforcement Team's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Upper Peninsula Substance Enforcement Team's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Upper Peninsula Substance Enforcement Team's programs.

The Upper Peninsula Substance Enforcement Team as a Whole

Table I provides a summary of the Upper Peninsula Substance Enforcement Team's net assets as of September 30, 2007 and 2006.

Table 1 Net Assets		
	Governmental Activities - 2007	Governmental Activities - 2006
Current and other assets	\$ 218,332	\$ 171,243
Capital assets, net	64,080	66,054
Total Assets	282,412	237,297
Current liabilities	19,004	12,324
Non-current liabilities	-	-
Total Liabilities	19,004	12,324
Net Assets:		
Invested in capital assets, net of related debt	64,080	66,054
Restricted	-	-
Unrestricted	199,328	158,919
Total Net Assets	\$ 263,408	\$ 224,973

Net assets of the Upper Peninsula Substance Enforcement Team's governmental activities stood at \$263,408. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$199,328.

The results of this year's operations for the Upper Peninsula Substance Enforcement Team as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2007 and revenue and expense in fiscal year 2007 compared to revenue and expense in fiscal year 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table 2
Change in Net Assets

		Governmental Activities – 2007	Governmental Activities – 2006
Revenues			
Federal Sources		\$ 586	\$ 5,632
Local Sources		86,773	95,297
Other Sources		103,575	58,530
	Total Revenues	190,934	159,459
Program Expenses			
Operating expenditures		146,517	143,223
Forfeiture expenditures		5,982	10,451
Capital outlay		-	-
	Total Expenses	152,499	153,674
	Increase (decrease) in net assets	38,435	5,785
Net assets, beginning		224,973	219,188
	Net Assets, Ending	\$ 263,408	\$ 224,973

The Upper Peninsula Substance Enforcement Team's total revenues were \$190,934. The total cost of all programs and services was \$152,499, leaving an increase in net assets of \$38,435. Our analysis below considers in more detail the operation of the Upper Peninsula Substance Enforcement Team's programs (in governmental activities) during 2007.

Governmental Activities

To understand the operation of the Upper Peninsula Substance Enforcement Team, its programs and services can be seen as falling into one broad category: those basic to local public safety relating to substance enforcement in the Upper Peninsula. The Upper Peninsula Substance Enforcement Team's basic public safety services are funded by state grants, local funding and forfeitures. Local funding consists of local government contributions.

THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FUNDS

As the Upper Peninsula Substance Enforcement Team completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a fund balance of \$199,328, an increase of \$40,409 from the beginning of the year. This is an improvement as fund balance had increased only \$7,759 for fiscal year ended September 30, 2006.

General Fund Budgetary Highlights

The Upper Peninsula Substance Enforcement Team creates a budget based on the previous year's operating results. This budget does not reflect revenue from any potential grant funding Upper Peninsula Substance Enforcement Team may be awarded during the budget year.

The actual revenues for fiscal year 2007 were \$190,934, which is an increase of \$116,734 over the final budgeted revenues of \$74,200. Actual expenditures for fiscal year 2007 were \$150,525, which is an increase of \$11,575 over the final budgeted expenditures of \$138,950.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal years 2007 and 2006, the Upper Peninsula Substance Enforcement Team had \$64,080 and \$66,054 invested in a variety of capital assets including land, buildings, and other equipment, respectively. (See table 3 below)

Table 3
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities – 2007	Governmental Activities – 2006
Land	\$ 5,000	\$ 5,000
Buildings	59,080	61,054
Equipment and furnishings	-	-
Land improvements	-	-
Construction in progress	-	-
Totals	\$ 64,080	\$ 66,054

There were no capital asset additions for fiscal years 2007 and 2006. There was \$1,974 and \$1,974 in depreciation expense for the fiscal years 2007 and 2006, respectively.

Debt

The Upper Peninsula Substance Enforcement Team had \$-0- in long term liabilities at year end of fiscal years 2007 and 2006.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Upper Peninsula Substance Enforcement Team's management staff bases their budget on the results of the previous year's activity and makes revisions as needed.

CONTACTING THE UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Upper Peninsula Substance Enforcement Team's finances and to show the Upper Peninsula Substance Enforcement Team's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Upper Peninsula Substance Enforcement P.O. Box 364, Gwinn, MI 49841.

Upper Peninsula Substance Enforcement Team
Governmental Funds Balance Sheet / Statement of Net Assets
September 30, 2007

	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 97,446	\$ -	\$ 97,446
Accounts receivable	7,993	-	7,993
Due from local government units	112,893	-	112,893
Total Current Assets	<u>218,332</u>	<u>-</u>	<u>218,332</u>
Non Current Assets			
Capital assets - net	-	64,080	64,080
Total Non Current Assets	<u>-</u>	<u>64,080</u>	<u>64,080</u>
TOTAL ASSETS	<u><u>218,332</u></u>	<u><u>64,080</u></u>	<u><u>282,412</u></u>
LIABILITIES			
Current Liabilities			
Accounts payable	19,004	-	19,004
Deferred forfeiture	-	-	-
Total Current Liabilities	<u>19,004</u>	<u>-</u>	<u>19,004</u>
Non Current Liabilities			
Notes payable	-	-	-
Total Non Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u><u>19,004</u></u>	<u><u>-</u></u>	<u><u>19,004</u></u>
FUND BALANCE / NET ASSETS			
Fund Balance			
Unrestricted	199,328	(199,328)	-
TOTAL FUND BALANCE	<u>199,328</u>	<u>(199,328)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 218,332</u></u>		
Net Assets			
Invested in capital assets - net of related debt		64,080	64,080
Unrestricted		199,328	199,328
TOTAL NET ASSETS		<u><u>\$ 64,080</u></u>	<u><u>\$ 263,408</u></u>

The notes to the financial statements are an integral part of this statement.

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance / Statement of Activities
For the year ended September 30, 2007

	Modified Accrual Basis	Adjustments	Statement of Activities
REVENUES:			
Federal sources	\$ 586	\$ -	\$ 586
Local sources			
Contributions	31,773	-	31,773
Grants	55,000	-	55,000
Other sources			
Forfeitures	87,184	-	87,184
Restitution	4,013	-	4,013
Interest income	2,497	-	2,497
Reimbursements	9,881	-	9,881
TOTAL REVENUES	<u>190,934</u>	<u>-</u>	<u>190,934</u>
EXPENDITURES			
Operating expenses	144,543	1,974	146,517
Forfeiture expenses	5,982	-	5,982
Capital outlay	-	-	-
TOTAL EXPENDITURES	<u>150,525</u>	<u>1,974</u>	<u>152,499</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>40,409</u>	<u>(1,974)</u>	<u>38,435</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	<u>158,919</u>	<u>66,054</u>	<u>224,973</u>
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 199,328</u>	<u>\$ 64,080</u>	<u>\$ 263,408</u>

The notes to the financial statements are an integral part of this statement.

UPPER PENINSULA SUBSTANCE ENFORCEMENT TEAM

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Upper Peninsula Substance Enforcement Team is an unincorporated interagency of numerous law enforcement agencies in Upper Michigan. The participating agencies entered into this agreement to create the Upper Peninsula Substance Enforcement Team for the purpose of combining their efforts towards the enforcement of narcotics and controlled substance laws of the State of Michigan.

The financial statements of the Upper Peninsula Substance Enforcement Team have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Upper Peninsula Substance Enforcement Team are described below.

(1) REPORTING ENTITY

In evaluating the Upper Peninsula Substance Enforcement Team as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Upper Peninsula Substance Enforcement Team may or may not be financially accountable and, as such, be includable within the Upper Peninsula Substance Enforcement Team's financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Upper Peninsula Substance Enforcement Team's basic financial statement is government-wide (reporting the Upper Peninsula Substance Enforcement Team as a whole). All the Upper Peninsula Substance Enforcement Team's operations are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Upper Peninsula Substance Enforcement Team's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Upper Peninsula Substance Enforcement Team first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of the Upper Peninsula Substance Enforcement Team's functions. The functions are supported by state grants, local contributions and forfeitures. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the Upper Peninsula Substance Enforcement Team as an entity and the change in the Upper Peninsula Substance Enforcement Team's net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Upper Peninsula Substance Enforcement Team:

General Fund - General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The Upper Peninsula Substance Enforcement Team reports the following major governmental funds:

The **General Fund** is the Upper Peninsula Substance Enforcement Team's primary operating fund. It accounts for all financial resources of the Upper Peninsula Substance Enforcement Team.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Governmental type activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting - The Upper Peninsula Substance Enforcement Team follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Upper Peninsula Substance Enforcement Team Administrator submits to the Upper Peninsula Substance Enforcement Team's Board of Directors proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Opportunities exist for public comment during the budget process since all action by the Board of Directors occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Upper Peninsula Substance Enforcement Team budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Upper Peninsula Substance Enforcement Team's Board of Directors, through policy action, specifically directs the Administrator not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Upper Peninsula Substance Enforcement Team adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Directors, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and short-term certificates of deposit with original maturity of three months or less. Investments are carried at fair value.

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Upper Peninsula Substance Enforcement Team as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	5-20 years
Vehicles	5 years

Long-Term Liabilities – In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

NOTE B – CASH AND INVESTMENTS:

Cash and Equivalents

The Organization's cash and equivalents, as reported in the Statement of Net Assets, consist of the following:

Checking account	\$87,446
Petty cash	10,000
Total	<u>\$97,446</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. State law does not require and the Organization does not have a deposit policy for deposit custodial credit risk. The carrying amounts of Upper Peninsula Substance Enforcement Team's deposits with financial institutions were \$87,446 and the bank balance was \$88,929. The bank balance is categorized as follows:

Amount insured by the FDIC	\$88,929
Amount uncollateralized and uninsured	-
TOTAL	<u>\$88,929</u>

The Organization has no investments at September 30, 2007.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS

The \$112,893 due from local government units represents the forfeited cash proceeds from the sale of property that is held by the City of Escanaba in a third party fiduciary relationship according to state and federal law.

NOTE D – CAPITAL ASSETS:

Capital asset activity of the Upper Peninsula Substance Enforcement Team for the current year was as follows:

	Balances 9/30/06	Additions	Deletions	Balances 9/30/07
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Subtotal	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Capital assets being depreciated:				
Land Improvements	-	-	-	-
Buildings	66,976	-	-	66,976
Equipment	132,601	-	-	132,601
Total Capital Assets Being Depreciated	<u>199,577</u>	<u>-</u>	<u>-</u>	<u>199,577</u>
Less Accumulated Depreciation:				
Land Improvements	-	-	-	-
Buildings	(5,922)	(1,974)	-	(7,896)
Equipment	(132,601)	-	-	(132,601)
Total Accumulated Depreciation	<u>(138,523)</u>	<u>(1,974)</u>	<u>-</u>	<u>(140,497)</u>
Governmental Activities Capital Assets, Net	<u>\$ 66,054</u>	<u>\$ (1,974)</u>	<u>\$ -</u>	<u>\$ 64,080</u>

Required Supplemental Information

Upper Peninsula Substance Enforcement Team
Governmental Fund Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the year ended September 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Federal sources	\$ -	\$ -	\$ 586	\$ 586
Local sources				
Contributions	70,000	70,000	31,773	(38,227)
Grants	-	-	55,000	55,000
Other sources				
Forfeitures	2,000	2,000	87,184	85,184
Restitution	600	600	4,013	3,413
Interest income	800	800	2,497	1,697
Reimbursements	800	800	9,881	9,081
TOTAL REVENUES	<u>74,200</u>	<u>74,200</u>	<u>190,934</u>	<u>116,734</u>
EXPENDITURES:				
Operating	189,650	132,950	144,543	(11,593)
Forfeiture	10,000	6,000	5,982	18
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>199,650</u>	<u>138,950</u>	<u>150,525</u>	<u>(11,575)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(125,450)</u>	<u>(64,750)</u>	<u>40,409</u>	<u>105,159</u>
FUND BALANCE / NET ASSETS - OCTOBER 1st	<u>158,919</u>	<u>158,919</u>	<u>158,919</u>	<u>-</u>
FUND BALANCE / NET ASSETS - SEPTEMBER 30th	<u>\$ 33,469</u>	<u>\$ 94,169</u>	<u>\$ 199,328</u>	<u>\$ 105,159</u>

Additional Information

Upper Peninsula Substance Enforcement Team
Schedule of Operating Expenditures
For the year ended September 30, 2007

OPERATING EXPENDITURES		
Advertising	\$	100
Personnel		5,154
Communications		11,009
Equipment expense		2,983
Insurance		2,987
Professional services		3,080
Supplies		9,249
Transportation		64,026
Training		440
Repairs and maintenance		2,222
Utilities		8,982
Miscellaneous		34,311
TOTAL OPERATING EXPENDITURES	\$	<u>144,543</u>

Compliance Supplements



Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Upper Peninsula Substance Enforcement Team
PO Box 364
Gwinn, Michigan 49841

We have audited the financial statements of the governmental activities of Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2007, which collectively comprise Upper Peninsula Substance Enforcement Team's basic financial statements and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Upper Peninsula Substance Enforcement Team's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Upper Peninsula Substance Enforcement Team's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Upper Peninsula Substance Enforcement Team's financial statements that is more than inconsequential will not be prevented or detected by the Upper Peninsula Substance Enforcement Team's internal control. Upper Peninsula Substance Enforcement Team's response to the findings in our audit is described in the accompanying report to management dated March 19, 2008 as item 07-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Upper Peninsula Substance Enforcement Team's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Peninsula Substance Enforcement Team's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are listed in a separate report to management dated March 19, 2008, as item 07-02.

Upper Peninsula Substance Enforcement Team's response to the findings identified in our audit is described in the accompanying report to management dated March 19, 2008. We did not audit Upper Peninsula Substance Enforcement Team's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 19, 2008



Upper Peninsula Substance Enforcement Team

Report to Management Letter

For the Year Ended September 30, 2007

Upper Peninsula Substance Enforcement Team
PO BOX 364
Gwinn, MI 49841-0364

In planning and performing our audit of the financial statements of Upper Peninsula Substance Enforcement Team as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Upper Peninsula Substance Enforcement Team's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

07-01 - Segregation of Duties (REPEAT)

Condition/Criteria: Lack of segregation of duties in the accounting applications of Upper Peninsula Substance Enforcement Team

Cause of Condition: Limited staff available to perform accounting applications

Effect: The most crucial areas are cash management and cash reconciliation, where the potential exists for intentional or unintentional errors to be made and not detected by employees in the normal course of operations on a timely basis.

Recommendation: We recommend separation of duties for cash handling be implemented to the extent possible and bank statements be opened and reviewed by the Commander before forwarding to the bookkeeper. We would also like to take this opportunity to remind the board of its oversight responsibilities in relation to financial reporting.

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander

- Chief Jim Hansen, Chairman of the Board
- Corrective action planned:
 - Det./Lt. Jeff Racine will open and review all bank statements prior to forwarding to the bookkeeper.
 - The board will continue to observe its oversight responsibilities in relation to financial reporting.
- Anticipated completion date:
 - September 30, 2008

Management Response: Management concurs.

INSTANCES OF NON-COMPLIANCE

07-02 - Uniform Budgeting and Accounting Act (P.A. 621)

Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that local units shall not incur expenditures in excess of the amounts appropriated. In the body of the financial statements, the Upper Peninsula Substance Enforcement Team had actual expenditures and budgeted expenditures for the General Fund shown on a functional basis. The approved budgets of this fund were adopted on an activity and/or program level. During the year ended September 30, 2007, Upper Peninsula Substance Enforcement Team incurred functional expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

Effect: The Upper Peninsula Substance Enforcement Team is not in compliance with State Law.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The Upper Peninsula Substance Enforcement Team should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Det./Lt. Jeff Racine, Commander
- Corrective Action Planned:
 - The budget will be more closely monitored and budget amendments will be made accordingly.
- Anticipated Completion Date:
 - September 30, 2008

This communication is intended solely for the information and use of management, Upper Peninsula Substance Enforcement Team, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 19, 2008